



Thursday, May 14, 2009

Saudi Arabia's Lessons Learned

By John Sfakianakis

The economic boom in the gulf countries over the past few years — fueled by the continuous rise of oil prices between 2003 and 2008 — helped put the region on the global economic map. In some ways, the boom became captive to a "mine is bigger than yours" syndrome. Competing states embarked on advertising campaigns and hired in public-relations firms to tout their wares. Developers and rulers alike pushed artificial islands (Dubai, Abu Dhabi, Qatar, Bahrain, Kuwait), and in many places real estate became the main economic activity. Officials promoted their cities as financial hubs as a way to diversify away from oil. Hundreds of millions of dollars were poured into national air carriers and airports, which were seen both as a source of national pride and as another way to expand the energy-dependent economies.

While oil revenues were flowing, sovereign wealth funds acquired foreign assets with the flair of peacocks. The humility that typified the past was supplanted by conspicuous consumption. Yes, all that infrastructure and new property that was built still exists — but its quality and engineering is, in many cases, dubious. (See pictures of migrant workers in the Gulf.)

In contrast, Saudi Arabia's institutional memory of the boom and bust cycle served it well during what was the kingdom's third great oil boom of the past four decades. After the high prices of the 1970s, Saudi Arabia's economy went through a long-drawn-out slowdown as oil revenues plummeted for most of the 1980s. After a spike when Iraq invaded Kuwait, prices weakened again in the 1990s, even as Saudi struggled to pay off its (large) chunk of the bill for the first Gulf War. At the height of the Asian financial crisis in 1998, oil prices had fallen to just \$12 a barrel. This meant that Saudi Arabia — which sells its precious black gold at a discount, on average — was getting just \$7 a barrel. Deficit financing was the only solution, and the government started borrowing at home and abroad. By 1999, Saudi Arabia's government debt was bigger than its economy. And then came 9/11, which drove the

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final nails into the coffin of the country's image. A series of terrorist attacks inside the country added to the sense of chaos. Some predicted the end of the House of Saud.

But when oil prices started to rise in 2003, Saudi Arabia was ready. For one thing, the Saudi Arabian Monetary Agency, the country's central bank, had greatly expanded the number of well-trained national staffers. Second, it had at its helm officials who remembered the bad days of low oil revenues. That meant that when the oil gushers were turned up again, money was saved and not aggressively spent as elsewhere in the region. The nation's wealth was also placed in very liquid investments, predominantly U.S. government paper assets, rather than real estate. While other regional investment funds were buying into international banks, Saudi Arabia was purchasing U.S. government bonds, or paying down its debt. The country can tap into those liquid assets while its neighbors are struggling to sell their investments in banks, equities and companies — Saudi's debt now stands at just 13% of the total size of its economy.

Third, King Abdullah, though often criticized as being too "frugal," has stuck to sensible spending. It is this that has saved Saudi Arabia. Even the ambitious economic cities that were announced at the end of 2005 were private-sector initiatives, not state-financed ones.

Fourth, the banking sector, thanks to its experience during the 1990s, has taken a conservative approach to lending, and remains highly unleveraged. Importantly, real estate in Saudi Arabia did not experience the same bubble that occurred in the country's neighbors; as a result consumers and lenders have been protected.

Fifth, during the boom years, Saudi Arabia invested more than \$70 billion in expanding its oil production capacity to 12.5 million barrels per day, not only to secure its future but also to address global supply imbalances.

To be sure, the two stock market slumps in 2006 and 2008 created negative wealth effects. High-net-worth businessmen have been hit by the current global financial crisis. But there is no doubt that the macroeconomic picture is solid and healthy. Over the next five years Saudi Arabia has outlined a \$400 billion spending program. In a decade or thereabouts, Saudi Arabia will become a \$1 trillion economy and will be better placed than the rest in the region to capitalize on its knowledge and

strengths. During the boom years, some critics said Saudi Arabia should become more like Dubai. Now the rest of the region might want to become a bit more like Saudi Arabia.

John Sfakianakis is chief economist of the Saudi British Bank (SABB)

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CONTACT:

Royal Embassy of Saudi Arabia
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SAUDI ARABIA DONATES \$3 MILLION TO WORLD SCOUT FOUNDATION

Donation Supports Gifts for Peace Program to Promote Cultural Understanding

WASHINGTON [May 8, 2009] – On behalf of the Kingdom of Saudi Arabia, Saudi Minister of Education and President of the Saudi Arabian Boy Scouts Association, HH Prince Faisal bin Abdullah bin Mohammed, today is delivering a \$3 million donation to Swedish King Carl XVI Gustaf, Honorary Chairman of the World Scout Foundation, to support the Gifts for Peace program. Gifts for Peace was created under the patronage of Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz in November 2001 at a Scouting Conference in Riyadh.

“Gifts for Peace is a truly worthy program and represents an extension of Saudi Arabia efforts to promote peace and cultural understanding worldwide,” said Saudi Ambassador to the United States Adel A. Al-Jubeir. “Through Gifts for Peace, King Abdullah and King Gustaf have already inspired more than ten million young people in 110 countries to work for peace and understanding in their local communities.”

The Gifts for Peace program is the World Scout Foundation’s key centennial program for all Scouts to tackle local issues and make a difference in their communities. These Gifts for Peace are gifts of education, understanding, tolerance and respect for others, given by Scouts in the form of community projects to other young people and their communities to help to build a better world. This latest donation from Saudi Arabia will bring the Kingdom’s total contribution to Gifts for Peace to approximately \$7 million since the program’s inception in 2001.

The Boy Scouts of America (BSA) recently signed a historic agreement with the Saudi Arabian Boy Scouts Association to participate in a youth and leader exchange program to further promote understanding of different cultures.

In addition to the Gifts for Peace program, which already includes Scouts in more than 100 countries, the BSA, through its Good Turn for America program, is focusing on supporting issues connected to food, shelter and good health habits; Scouts in South Africa are working on an HIV/AIDS awareness project; Scouts in Egypt are addressing child labor; Scouts in Saudi Arabia are working to develop inter-cultural and inter-religious understanding; Scouts in New Zealand are working on health issues and tackling youth suicide; Scouts in Brazil are working to disarm young people and tackle violence in the home and on the streets; and Scouts in Namibia are combating domestic violence and the abuse of women and children.

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MEDIA ALERT

PRESS CONFERENCE

CONTACT:

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ssoghier@qorvis.comSAUDI ARABIA DONATES \$3 MILLION TO
THE WORLD SCOUT FOUNDATION*Donation Supports Gifts for Peace Program to Promote Cultural Understanding*

WHAT:

Saudi Arabia's Minister of Education and President of the Saudi Arabian Boy Scouts Association, HH Prince Faisal bin Abdullah bin Mohammed and HM King Carl XVI Gustaf of Sweden, Honorary Chairman of the World Scout Foundation, will announce on Friday, May 8, 2009 a \$3 million donation from Saudi Arabia to the World Scout Foundation peace initiative. The initiative is intended to inspire young people of all faiths, nationalities and cultures to build bridges of peace through projects emphasizing education, understanding, tolerance and respect for others. Gifts for Peace was created under the patronage of Custodian of the Two Holy Mosques Saudi King Abdullah bin Abdulaziz in November 2001 at a Scouting Conference in Riyadh.

WHY:

The World Scout Foundation has issued a challenge to youth across the globe to help build peace one community at a time and recently signed a historic agreement with Kingdom of Saudi Arabia Scouting Association to participate in youth and leader exchange program to further promote understanding of different cultures. Saudi Arabia's King Abdullah is supporting the global peace program, which already includes Scouts in 110 countries. The Gifts for Peace is the World Scout Foundation's key centennial program for all Scouts to tackle local issues and make a difference in their communities. The Gifts for Peace are gifts of education, understanding, tolerance and respect for others, given by Scouts in the form of community projects to other young people and their communities in order to help to build a better world.

WHO:

HM King Carl XVI Gustaf of Sweden, Honorary Chairman of World Scouting Foundation
HH Prince Faisal bin Abdullah bin Mohammed, Minister of Education, Kingdom of Saudi Arabia
Bob Mazzuca, Chief Scout Executive, Boy Scouts of America
Lars Kolind, Chairman, World Scouting Foundation

WHEN:

Friday, May 8, 2009
3 p.m.-4 p.m.

WHERE:

Boston Harbor Hotel
John Foster Salon
70 Rowes Wharf
Boston, MA 02110

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Royal Embassy of Saudi Arabia
Donation to the World Scout Foundation
HH Prince Faisal bin Abdullah, Minister of Education
Radio News Release
May 12, 2009

Voice: Saudi Arabia's Minister of Education and President of the Saudi Arabian Boy Scouts Association, His Highness Prince Faisal bin Abdullah, was in Boston delivering a \$3 million dollars gift to Swedish King Carl XVI Gustaf, Honorary Chairman of the World Scout Foundation. The donation is to help support the Gifts for Peace program.

HIS HIGHNESS PRINCE FAISAL BIN ABDULLAH:

Prince Faisal: "Saudi Arabia is pleased to continue supporting this worthy program. Through Gifts for Peace, Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz, and King Gustaf have successfully inspired more than ten million youth in 110 countries to work for peace and understanding."

Voice: Gifts for Peace was initiated by King Abdullah in 2001 at a Scouting conference in Saudi Arabia. With this donation, the Kingdom has contributed approximately seven million dollars since its inception in 2001.

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